

Message Text

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ACTION XMB-07

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E. O. 11652: N/A

TAGS: BEXP EFIN KS

SUBJECT: ORIENTAL CHEMICAL SODA ASH PROJECT

REF A STATE 244029 SEOUL 18275

1. SUMMARY: DURING LAST YEAR'S KOREAN PURCHASING MISSION TO THE US ORIENTAL CHEMICAL INDUSTRIAL COMPANY (OCIC) MADE PRELIMINARY ARRANGEMENT FOR PURCHASE \$3 MILLION EQUIPMENT FOR EXPANSION OF SODA ASH FACILITY. APPLICATION FOR EXIM CREDIT RESULTED IN EXIM PRECOMMITMENT WITH CONDITION PRECEDENT TO ANY

DISBURSEMENT THAT COMPANY INCREASE CAPITAL BY \$2 MILLION. OCIC HAS NO PROBLEM IN PRINCIPLE SINCE SIMILAR CONDITION ALSO IMPOSED BY ROKG IN APPROVING EXPANSION LOAN. REAL PROBLEM IS TIMING OF CAPITAL INCREASE WHICH COMPANY OFFICERS SAY CANNOT BE COMPLETED BEFORE FEBRUARY WHEN PG MUST OPEN L/C'S TO US SUPPLIERS TO PERMIT PROJECT TO MOVE AHEAD ON SCHEDULE. EMBASSY ENDORSES COMPANY SUGGESTION THAT EXIM PRECOMMITMENT BE ALTERED TO ALLOW CAPITAL INCREASE WITHIN REASONABLE PERIOD OF TIME
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RELYING ON KOREAN GOVERNMENT ECONOMIC PLANNING BOARD

REQUIREMENT FOR SAME. END SUMMARY.

2. DURING SEPTEMBER KOREAN PURCHASING MISSION TO US, OCIC DIRECTOR, S.Y. LEE, CONTACTED SOCIETY NATIONAL BANK CLEVELAND, EXIM AND US SUPPLIERS CONCERNING PLANNED EXTENSION OF SODA ASH PLANT. ACCORDING TO LEE, BOTH CLEVELAND BANK AND EXIM ANTICIPATED NO PARTICULAR DIFFICULTY IN OBTAINING EXIM FINANCING. CONSEQUENTLY, OCIC SIGNED PURCHASE ORDERS WITH DELIVERY BASED ON FEBRUARY OPENING OF L/C (MARCH DATE MENTIONED PAGE 3 OF OCIC/EXIM DECEMBER 24 LETTER WAS IN ERROR. SUBSEQUENTLY EXIM PRECOMMITMENT ESTABLISHED EQUITY INCREASE OF \$2 MILLION AS CONDITION PRECEDENT TO DISBURSEMENT.

3. BY POLICY OF KOREAN GOVERNMENT, ECONOMIC PLANNING BOARD (EPB) WILL ALSO REQUIRE SIMILAR EQUITY INCREASE FOR APPROVAL OF FOREIGN CREDITS, BUT EPB REQUIREMENT WOULD GIVE OCIC UP TO YEAR TO ARRANGE CAPITAL INCREASE. OCIC, ACCORDING TO LEE, NOT OPPOSED IN PRINCIPLE TO CAPITAL INCREASE AND WILLING TO DO SO IN TWO STAGES OF \$1 MILLION EQUIVALENT ON AUGUST 31 AND DECEMBER 31. FIRM CLAIMS, FURTHERMORE, THAT THIS APPROACH WOULD BE ACCEPTABLE TO EPB. THUS, UNDERTAKING TO IMPROVE CAPITAL STRUCTURE OVER REASONABLE PERIOD OF TIME WOULD BE INSCRIBED IN OCIC COMMITMENT TO EPB.

4. EMBASSY HAS BEEN ADVISED BY RESPONSIBLE EPB OFFICIALS

THAT EPB LOOKS FAVORABLY ON PROJECT AND WOULD APPROVE IT

PROVIDING OCIC ACCOMPANIES APPLICATION TO EPB WITH VALID AND OPERABLE EXIM PRECOMMITMENT. BID, LEE POINTS OUT, EXIM INSISTENCE ON CAPITAL PPAY-IN PRIOR TO CREDIT DISBURSEMENT WOULD MEAN CANCELLATION OF PURCHASE AGREEMENTS MADE WITH US SUPPLIERS DURING PURCHASING MISSION BECAUSE OCIC COULD CLEARLY NOT INCREASE CAPITAL IN SHORT PERIOD BEFORE L/C'S DUE IN FEBRUARY. THUS, PURPOSE OF KOREAN PURCHASING MISSION WOULD BE BLUNTED, PROJECT WOULD BE DELAYED, AND OCIC PROBABLY FORCED TO LOOK TO JAPAN FOR EQUIPMENT SUPPLY AND FINANCING.

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5. IN FURTHER ARGUMENTATION, LEE STATED THAT DELAY CAUSED BY FAILURE TO OBTAIN US FINANCING WOULD HAVE ADVERSE CONSEQUENCES FOR KOREAN ECONOMY. KOREA ALREADY SHORT OF SODA ASH AND ROKG COUNTING ON OCIC EXPANDED PRODUCTION TO FILL GAP BY JAN 1975. SODA ASH IS IN SHORT SUPPLY AND IS IMPORTANT FOR KOREAN TEXTILE, GLASS AND SOAP INDUSTRIES, AMONG OTHERS. PRODUCTION DOES NOT INVOLVE

DIRECT DEPENDENCE ON PETROLEUM AS RAW MATERIAL. US EQUIPMENT SOURCE SUPPORTED BY EXIM CREDIT WAS SOUGHT BY OCIC BECAUSE COMPANY BELIEVED EXIM FINANCING COULD BE ARRANGED RAPIDLY. HAD OCIC BEEN ABLE TO FORESEE PRESENT DIFFICULTIES, ALTERNATIVE OF OTHER EQUIPMENT AND FINANCE SOURCE WOULD HAVE BEEN SOUGHT.

6. EMBASSY COMMENT: OCIC, AS AID BORROWER, IS COMPANY IN WHICH USG ALREADY HAS A LONG ESTABLISHED INTEREST.

MARKET DEMAND APPEARS STRONG FOR PRODUCT OF PROPOSED EXPANSION. THERE APPEARS TO BE REASONABLE PROSPECT OF REPAYMENT OF EXIM CREDIT WITHOUT RECOURSE TO ROKG GUARANTEE AS LONG AS COMPANY STRENGTHENS FINANCIAL POSITION ALONG LINES SUGGESTED BY EXIM AND ROKG AND AGREED TO BY COMPANY ITSELF. KEY TO EXPANSION ON SCHEDULE WITH US EQUIPMENT IS ALTERNATION OF EXIM PRECOMMITMENT TO PERMIT CAPITAL INCREASE WITHIN REASONABLE PERIOD OF TIME RATHER THAN ESTABLISHMENT OF CAPITAL INCREASE AS CONDITION PRECEDENT TO CREDIT DISBURSEMENT. WE BELIEVE THAT OCIC UNDERTAKING TO STRENGTHEN CAPITAL BASE, TOGETHER WITH DISCIPLINE THAT

CAN BE APPLIED BY ROKG AND USAID, PROVIDES REASONABLE GUARANTEE THAT IT WILL ACTUALLY TAKE PLACE. WE URGE EXIM RECONSIDERATION OF PRECOMMITMENT PRECONDITION IN THIS PARTICULAR CASE.
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